



California Public Employees' Retirement System  
Executive Office  
P.O. Box 942701  
Sacramento, CA 94229-2701  
TTY: (877) 249-7442  
(916) 795-3825 phone • (916) 795-3410 fax  
[www.calpers.ca.gov](http://www.calpers.ca.gov)

## Agenda Item 20

September 14, 2011

**TO: MEMBERS OF THE BOARD OF ADMINISTRATION**

- I. SUBJECT:** Diversity Update
- II. PROGRAM:** Diversity Outreach Program, Investment Office, and Legal Office
- III. RECOMMENDATION:** Information Item
- IV. ANALYSIS:**

The purpose of this agenda item is to provide an overview and status of the Diversity Outreach Program (CDOP), the Investment (INVO), and Legal Office's diversity and inclusion (D&I) efforts.

As a global investor, public employer, and provider of retirement and health benefits services within the nation's most ethnically and culturally diverse state, CalPERS recognizes diversity as a competitive advantage that calls for the broadest possible pool of talent, experience, and perspective. The CalPERS Board of Administration acknowledged this by including D&I as an element in our Strategic Plan.

### **Diversity Outreach Program – Internal Operations**

#### ***FY 2011-12 First Quarter D&I Activities***

In the first quarter of FY 2011-12 CDOP staff developed, implemented, or participated in various organization-wide initiatives, and external multifaceted activities, enhancing appreciation for D&I at CalPERS. Activities included:

- Presented D&I Employee Focus Group recommendations to Executive Team
- Presented Workforce Sustainability and Intergenerational Trends at July's Board off-site

- Completed mandated Annual Workforce Analysis and submitted it to the State Personnel Board
- Conducted disability awareness training for CalPERS Disability Advisory Council members
- D&I meeting with Franchise Tax Board
- Annual Leadership Forum
- Human Resources Division's D&I Hiring Process Initiative
- D&I Business Plan for 2011-12 has been approved by the Diversity Executive Steering Committee with the D&I Employee Focus Group Recommendations to be incorporated at a later date.

### ***CDOP Future Activities***

CDOP has invited California Highway Patrol (CHP) Officer Mike Remmel to speak at the next Brown Bag Luncheon Speaker Series on September 28<sup>th</sup>. Officer Remmel will recount the accident that severed both his legs and what he did to return to full duty as a CHP Officer.

Next month, the Executive Team will take part in an Executive D&I Development Journey with the Kaleidoscope Group. This development program is in alignment with the 2011-12 CalPERS Business Plan and the strategic direction of our D&I efforts with the implementation of committed behaviors and actions from the Senior Leadership team.

### **Investment Office - Portfolio Management – Programs & Research**

#### ***Alternative Investment Management (AIM) Program***

In July 2011, the AIM Program announced a Request for Information (RFI) process related to forming a New Investment Vehicle (NIV) that could complement other emerging manager initiatives in the AIM Program. It is anticipated that the NIV could be structured as a customized fund-of-funds (FOF). The primary objective of the NIV will be generating superior risk-adjusted rates of return for the AIM Program.

Periodically staff solicits potential vehicle managers, even in the same sector, to help the AIM Program find new and interesting opportunities. The core of the AIM Program is invested with major global partners and funds. Financing early stage and young emerging investment management firms toward generating exceptional added returns as well as better alignment of interest is expected to eventually result in the ability for some underlying partnerships to join the core AIM portfolio.

### ***Real Assets***

In August 2011, the Investment Committee approved a new \$200 million program for emerging real estate managers who have less than \$1 billion of assets under management and no more than three prior commingled funds or separate account investment vehicles. Staff will select from its current core pool of seasoned investment managers to develop a pipeline and oversee the selection of talented new managers, provide mentoring, and back office support. The program will focus on managers and assets in urban California markets.

The term of the new Emerging Manager Program for Real Estate will be five years. CalPERS will review the progress and outcome of the program after two years. Crosswater Realty Advisors assisted in research, design, and development of the program. The objectives of the proposed program are to achieve appropriate risk adjusted returns, access investment opportunities that may otherwise not be pursued, and to increase diversity among our pool of investment managers.

### ***Corporate Governance***

CalPERS and CalSTRS commissioned Governance Metrics International (GMI) to build, own, operate, and maintain the Diverse Director Data Source (3D). This marks the completion of the Advisory Panel's work to guide the development and create a practical strategy for 3D. GMI continues to build 3D with input and oversight from CalPERS and CalSTRS. The CalPERS Corporate Governance website has been updated with new web pages dedicated to 3D. The new pages include background information on the project, Advisory Panel details, diversity across the enterprise, and frequently asked questions.

### ***External Outreach – Networking & Pipeline Development***

CalPERS hosted a half-day workshop for emerging investment managers on June 28, 2010 at its headquarters in Sacramento, CA. 264 industry professionals were invited to register for the workshop. They represented portfolio managers, consultants, and advisors – some firms were also represented by their financial, compliance and/or operations staff – and executive directors of our diversity industry non-profit partners. 72 invitees registered and participated in the event alongside 16 of our board members and staff.

The workshop theme: *“Emerging Investment Manager Roadmaps”* afforded invitees an opportunity to ask our expert panels - comprised of senior staff in the Investment Office, consultants, and advisors for Public and Private Equity, and Hedge Fund strategies - how to successfully organize their firms and build operations and compliance capabilities. The workshop concluded with a networking session where attendees could ask more detailed questions of the panelists and also meet additional staff within each of the portfolio management program areas.

Investment Office staff participated on a panel at the Follow-up Informational Hearing hosted by California Senator Curren Price and the California Public Utilities Commissioner Timothy Simon on Friday, July 22 in Los Angeles, CA. At the Joint Informational Hearing hosted by the same senator and commissioner on October 21, 2010 barriers were examined to procurement opportunities for diverse and emerging investment management within California’s public utility companies and public pension funds. The follow-up hearing discussed recent progress made to mitigate barriers to emerging and diverse firms.

Investment Office staff met with New America Alliance (NAA) staff and representatives from member firms on August 24, 2011 as part of 2011 NAA Tour. NAA is an organization of American Latino business leaders committed to Latino empowerment and wealth-building by expanding the forms of capital most crucial for economic advancement - economic capital, human capital, and philanthropy.

## **Future Plans Portfolio Management – Programs & Research**

### ***AIM Program***

Forty-one responses to the RFI were received through the investment proposal online submission service on CalPERS external website. The next steps will be conducting an in depth review of each proposal, evaluating, and scoring them against a standard set of criteria, then interviewing a short list of the strongest candidates among competitive firms.

### ***Real Assets***

The next steps to implement the Emerging Manager Program include establishing a process, and identifying up to four mentoring managers. Investment agreements will be negotiated and drafted memorializing the relationship between CalPERS and the mentoring manager. Once mentor manager relationships are fully established, the mentor managers will identify emerging managers and establish investment contracts with them.

### ***Corporate Governance***

In anticipation of the public launch on September 26, 2011, CalPERS Office of Public Affairs is developing the media strategy for 3D in collaboration with CalSTRS and GMI. GMI will also issue a press release and make a formal announcement during the Council of Institutional Investors' fall meeting in Boston, MA. GMI plans to host a 30-minute meeting to walk through a slide presentation and demonstration of 3D. This meeting will be open to all CII members.

### ***Research***

Research initiatives include understanding disabled veteran business enterprise participation related laws and policies, collecting emerging investment manager program performance data to more rigorously evaluate impact on the total fund, and inventory published studies about emerging investment managers and diversity in financial services.

### ***External Outreach – Networking & Pipeline Development***

Three annual conferences hosted by diversity industry non-profit associations are scheduled for October 2011 as follows:

- National Association of Investment Companies: October 2-4 in Palm Beach, FL
- Asian American Association of Investment Managers: October 11-12 in Washington, DC
- New America Alliance: October 26-28 in New York, NY

Investment Office staff whose expertise fits shall be made aware when agenda topics and available speaking opportunities are communicated by each industry association. However, the number of externally hosted conferences, including those organized by for-profit entities, as well as those by emerging manager specialist advisors and consultants, either exclusively dedicated to or incorporating diversity and emerging manager topics into their agenda, continues to increase.

While this was among the hopeful outcomes early on in the development of CalPERS related program initiatives, balancing the increasing request for CalPERS presence and participation at such events with investment office staff workload and travel expense budgeting will require setting strategic priorities going forward.

### **Legal Office**

The Legal Office's Diversity Project seeks to increase diversity within the pool of outside counsel with which CalPERS contracts for legal services so that the pool reflects California's diverse population, provides a broad spectrum of experience, talent, viewpoints and strategies, and elevates the professional expertise available to the CalPERS system through contracting opportunities.

The *2010-11 CalPERS Business Plan* includes a specific initiative designed to improve outside counsel diversity. The initiative provides that by June 30, 2011, the Legal Office will expand external legal counsel contracts by creating pools in at least four specialty areas through the addition of firms reflective of California's diverse population.

To achieve the initiative set forth in the *2010-11 CalPERS Business Plan*, the Legal Office created pools of outside counsel firms in the five specialty areas of:

- Health Care Law
- Labor/Employment
- Bankruptcy
- Immigration
- Business Litigation

The solicitation for Health Care counsel resulted in the execution of contracts with four law firms: two are large international law firms with strong commitment to diversity initiatives and programs, the second is a medium-sized Sacramento based law firm, and the third is a small certified minority-owned law firm. In the Labor/Employment specialty area, contracts were executed with three firms. One firm is a certified minority-owned firm; the second is a national, mid-sized firm with a strong commitment to diversity and the lead attorney for CalPERS' business is a woman.

The third firm is a small firm, with a strong commitment to diversity and all five of the attorneys that are assigned to the CalPERS book of business are diverse.

The Bankruptcy pool consists of five law firms. Two are large firms – one, international with 1900+ attorneys, and the second, Sacramento based. The third is a national mid-sized law firm, with an office in Sacramento; the fourth is a mid-sized law firm based in Los Angeles and is the oldest and largest minority law firm in the country. Finally, the fifth firm is small (8 lawyers) based in Sacramento.

The Immigration pool consists of one law firm of four lawyers, three of which are diverse.

The solicitation for Business Litigation counsel, released in March 2011, resulted in a robust pool of 34 candidates, including several diverse firms. Interviews for this pool are still in process, and we anticipate awarding contracts in the next two months.

**V. STRATEGIC PLAN:**

This agenda item is in alignment with the following Strategic Goals:

- II. Foster a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability;
- III. Sustain a high performance work culture utilizing staff development, technology, and innovative leadership and management strategies;
- IV. Design and develop education and communication initiatives to ensure broad member and stakeholder understanding of CalPERS value; and
- IX. Achieve long term, sustainable, risk-adjusted returns.

**VI. RESULTS/COSTS:**

This agenda item will result in regular program cost only.

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LINDY E. PLAZA, CDP  
Chief Diversity/EEO Officer of Internal  
Operations

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GINA M. RATTI  
Deputy General Counsel

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JANINE M. GUILLOT  
Chief Operating Investment Officer

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STEPHEN W. KESSLER  
Deputy Executive Officer, Operations